

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-07
NSC-05 CIEP-01 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04
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P R 130534Z JAN 77
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 4705
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL HONG KONG
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DEPT PASS FEDERAL RESERVE, CEA, LABOR

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS -- JAN 6-12

1. SUMMARY: GOJ OFFICIALLY UPS PROJECTED -- AND EFFECTIVELY ITS
TARGETED -- GROWTH FIGURE FOR FY 1977 TO 6.7 PERCENT, ABOUT 1
PERCENT ABOVE FY 1976 FIGURE. SLIGHT IMPROVEMENT IN PRICE PER-
FORMANCE FORESEEN. BALANCE OF PAYMENTS ON CURRENT ACCOUNT SEEN AS
MOVING INTO SMALL DEFICIT. FINMIN ABOUT TO OFFER UP ITS BUDGET
PROPOSALS FOR TRADITIONAL LAST-GASP INTER-MINISTERIAL HAGGLING
OVER FUNDS. DOUBTS CAST ON EXPECTED JAN DISCOUNT RATE CUT. RATE
OF WHOLESALE PRICE INCREASE AGAIN MODERATE IN DEC. NEW CONSTRUC-
TION ORDERS UP STRONGLY IN NOV, BUT NEW PRIVATE MACHINERY ORDERS
DOWN. NOW UNEMPLOYMENT FIGURES SHOW DETERIORATION ALTHOUGH MANU-
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FACTURING OVERTIME MAY SIGNAL FUTURE IMPROVEMENT. END SUMMARY.

2. AS PRELUDE TO FINAL EXECUTIVE BRANCH DELIBERATIONS ON PREPARA-
TION OF NEXT YEAR'S BUDGET, EPA PRODUCED, CABINET ENDORSED, AND
GOJ RELEASED THIS WEEK FOLLOWING PROJECTIONS FOR JAPAN'S ECONOMIC
OUTLOOK IN FY 1977:
PERCENT CHANGE, CURRENT PRICES

	FY 1976 (ESTIMATE)	FY 1977 (PROJECTION)
NATIONAL ACCOUNTS:		
PRIVATE CONSUMPTION	13.6	13.7
FIXED INVESTMENT		
PRIVATE HOUSING	17.8	16.5
PVT. PLANT AND EQUIPMENT	8.9	12.2
INVENTORIES, PRIVATE	46.7	58.3
GNP	13.4	13.7
(AT CONSTANT PRICE)	(5.7)	(6.7)
BALANCE OF PAYMENTS: BILLION DOLLARS, CURRENT PRICES		
EXPORTS	66.7	74.8
IMPORTS	MIN 57.9	MIN 67.5
TRADE BALANCE	8.8	7.3
SERVICES AND TRANSFERS	MIN 6.7	MIN 8.0
CURRENT ACCOUNT BALANCE	2.1	MIN 0.7
LONG-TERM CAPITAL	MIN 2.2	MIN 2.6
BASIC BALANCE	MIN 0.1	MIN 3.3
OTHER:		
INDUSTRIAL PRODUCTION (MINING		
AND MANUFACTURING)	13.2	9.2
WPI	6.0	5.7
CPI	9.4	8.4

3. BIG QUESTIONS CONCERNING REALIZATION GOJ GROWTH PROJECTIONS WOULD SEEM CONCERN PRICE PERFORMANCE AND PRIVATE PLANT AND EQUIPMENT INVESTMENT. FOR EXAMPLE, PROJECTED NOMINAL INCREASE IN PRIVATE CONSUMPTION, AT 13.7 PERCENT, SEEMS WITHIN RANGE ONE MIGHT REASONABLY PROJECT; IN REAL TERMS, HOWEVER, THIS PROBABLY LIMITED OFFICIAL USE

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TRANSLATES INTO ABOUT 5-6 PERCENT INCREASE, WHICH COULD BECOME A MAJOR DRAG ON GROWTH SHOULD CPI INCREASE FASTER THAN FORECAST, OR A POTENT SOURCE OF STRENGTH SHOULD INFLATION BE LOWER THAN FORE- SEEN. PLANT AND EQUIPMENT INVESTMENT FORECAST OF 12.2 PERCENT INCREASE IN FY 1977 (PERHAPS ABOUT 7 PERCENT IN REAL TERMS) SEEMS, GIVEN GENERALLY PESSIMISTIC RESULTS OF SURVEYS OF BUSINESS INTENTIONS, TO BE LITTLE MORE THAN EVIDENCE THAT THERE ARE OPTIMISTS IN THE GOJ. IT DOES SEEM TRUE, HOWEVER, THAT BUSINESS IS MORE COMFORTABLE WITH FUKUDA THAN WITH HIS PREDECESSOR, AND FUTURE BUSINESS SURVEYS OF INVESTMENT INTENTIONS MAY REFLECT GREATER OPTIMISM ON THEIR PART.

4. FORECASTS OF EXTERNAL ACCOUNTS, SHOWING SOME (NOT IMPLAUSIBLE) DETERIORATION OF TRADE BALANCE, SIMILAR (LESS PLAUSIBLE AT FIRST BLUSH) DETERIORATION OF SERVICES AND TRANSFERS ACCOUNTS, AND SUB- STANTIAL (AND SURPRISING) DEFICIT ON BASIC BALANCE, WILL BE SUBJECT OF LATER MESSAGE, AFTER EMB HAS HAD CHANCE TO DISCUSS THESE FORECASTS WITH GOJ OFFICIALS. RECALL THAT INITIAL GOJ FORE- CAST FOR JFY 76 - REPORTED TOKYO 1291 JAN 28, 1976 - PROJECTED

\$2.7 BIL CURRENT ACCOUNT DEFICIT AND \$4.9 BASIC BALANCE DEFICIT
FOR FISCAL 1976.

5. INFO ON GNP COMPONENTS WILL BE FILLED OUT AS BUDGET PROCESS
CONTINUES, IN PARTICULAR, AS COMPLETION BUDGET CONSULTATION
PROCESS LEADS TO REDUCED SENSITIVITY ABOUT FIGURES FOR GOVT
ACCOUNTS. FOLLOWING FORMAL PRESENTATION OF FINANCE MINISTRY
DRAFT BUDGET TO CABINET TODAY (JAN 13), WEEK OF NEGOTIATIONS WILL
BEGIN AMONG VARIOUS GOVT MINISTRIES FOR APPROPRIATIONS. PRESENT
EXPECTATION IS THAT TOTAL EXPENDITURES (CURRENT BUDGET) FOR
FY 1977 WILL BE YEN 28.5 TRILLION, OR 17.4 PERCENT OVER FY 1976
ORIGINAL BUDGET, UP SOMEWHAT FROM EARLIER REPORTS. GOVT BOND
ISSUES TO FINANCE GENERAL ACCOUNT DEFICIT EXPECTED TO BE PRO-
JECTED AT YEN 8.5 TRILLION. DESPITE CONSIDERABLE COMMOTION,
BUDGET AGGREGATES WHICH ARE SCHEDULED TO BE FORMALLY APPROVED BY
CABINET JAN 20 FOR TRANSMITTAL TO DIET LIKELY TO REMAIN UNCHANGED.
REVENUE PROPOSALS -- NOW EXPECTED TO INCLUDE SOMEWHAT LARGER MINI-
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TAX CUT THAN EARLIER RUMORED -- WILL BE REPORTED IN SUBSEQUENT
MESSAGE.

6. FOLLOWING A MONTH OF DEVELOPING CONSENSUS TO THE EFFECT THAT
THE BOJ DISCOUNT RATE WOULD BE CUT IN JAN, ONCE THE SHAPE OF THE
BUDGET WAS KNOWN, THIS WEEK HAS SEEN A SPATE OF REPORTS THAT
THERE WILL NOT BE AN EARLY RATE CUT AFTER ALL. AFTER A MEETING
THIS PAST WEEK BETWEEN BOJ GOV MORINAGA AND NEW FINMIN BOH
(MINISTER HAS INFORMED OWN STAFF HIS NAME IN ROMAN LETTERS SHOULD
BE SPELLED "BOH" NOT "BO"), IT WAS REPORTED THEY AGREED THAT

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C O R R E C T E D C O P Y (PARAS MISNUMBERED)

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IT WAS NOT IMPERATIVE THAT THE DISCOUNT RATE BE CUT AT THIS JUNCTURE; THIS WAS FOLLOWED BY REPORTS SUGGESTING THAT PRIMIN FUKUDA HAS DECIDED AGAINST SUCH A DISCOUNT RATE CUT. BASIC PROBLEM APPEARS TO BE THAT BANKS' PROFIT MARGINS (OVER WHICH GOVT HAS STRONG INFLUENCE BECAUSE OF ITS INTERVENTION IN FIXING BOTH COSTS OF BANKS' FUNDS AND THEIR LENDING RATES) WOULD BE SQUEEZED TO MUCH BY ONE-HALF PERCENT CUT IF DEPOSIT AND SAVINGS RATES NOT ALSO CUT, AND GOVT, FACING DIFFICULT UPPER HOUSE ELECTION IN JULY, IS HESITATNT TO CUT LATTER RATES WHEN SO MANY VOTERS HOLD THEIR SAVINGS IN SUCH DEPOSITS. LDP AND PRIVATE BUSINESS CIRCLES (E.G. KEIDANREN) HAVE ARGUED STRONGLY FOR A DISCOUNT RATE CUT, HOWEVER, AND ONE-QUARTER PERCENT RATE CUT IS LIMITED OFFICIAL USE

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GENERALLY VIEWED AS FEASIBLE WITHOUT PARALLEL CUT IN SAVINGS RATES. ODDS MAY STILL FAVOR ONE-QUARTER PERCENT CUT IN JAN, BUT SITUATION CERTAINLY LESS CLEAR THAN IT APPEARED EARLIER.

7. WHOLESALE PRICE INDEX (SEASONALLY UNADJUSTED) ROSE ONLY 0.1 PERCENT IN DEC CONTINUING PATTERN OF VERY MODERATE INCREASES WHICH BEGAN IN OCT. DEC FIGURE 6.1 PERCENT OVER YEAR EARLIER. DECLINES IN PRICES OF WIDE RANGE OF BASIC MANUFACTURES (INCLUDING STEEL AND TEXTILES) PLUS LIMITED PRICE INCREASES FOR MOST OTHER MANUFACTURED GOODS LARGELY OFFSET A 1.6 PERCENT RISE IN PRICES OF UNPROCESSED AGRICULTURAL AND FISHERY PRODUCTS. SLOWDOWN IN PRICE RISE SINCE SUMMER IS ESPECIALLY NOTICEABLE FOR MANUFACTURED GOODS. WPI FOR MANUFACTURED COMMODITIES HAS INCREASED SINCE AUG AT ABOUT A 1 PERCENT ANNUAL RATE.

INDEX, N.S.A., 1970 EQUALS 100; PERCENT CHANGE FROM
PRIOR PERIOD IN PAREN

TOTAL (JEI 471) MANUFACTURES
RECENT QUARTERS:

JAN-MAR	161.6 (0.8)	153.2 (1.7)
APR-JUN	164.2 (1.6)	155.5 (1.5)
JUL-SEP	167.3 (1.9)	158.7 (2.1)
OCT-DEC	168.6 (0.8)	159.4 (0.4)

RECENT MONTHS:

SEP	168.0 (0.4)	159.0 (0.0)
OCT	168.2 (0.1)	159.2 (0.1)
NOV	168.7 (0.3)	159.4 (0.1)
DEC	168.9 (0.1)	159.6 (0.1)

8. NEW CONSTRUCTION ORDERS, BOTH GOVT AND PRIVATE, REGISTERED SUBSTANTIAL MONTHLY GAINS IN NOV (SEASONALLY ADJUSTED). ORDERS PLACED BY GOVT AND PUBLIC AGENCIES ROSE SHARPLY IN NOV. NOV INCREASE PRESUMABLY REFLECTS IMPACT OF RISING EXPENDITURE AUTHORIZATIONS FOLLOWING DIET PASSAGE OF DEFICIT BOND FINANCING, JNR/NTT RATE INCREASE BILLS AND POSSIBLY GOJ ECONOMIC STIMULUS LIMITED OFFICIAL USE

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PACKAGE ANNOUNCED MIDDLE OF THE MONTH. NOV INCREASE COULD BE FORERUNNER OF ADDITIONAL EXPENDITURE INCREASES FOR PUBLIC WORKS. NEW PRIVATE CONSTRUCTION ORDERS CONTINUED TO RISE IN NOV FOR THIRD CONSECUTIVE MONTH.

NEW CONSTRUCTION ORDERS, SEASONALLY ADJUSTED (BIL YEN;
PERCENT CHANGE FROM PRIOR MONTH IN PAREN)

	GOVT/PUBLIC (JEI 324)	PRIVATE (JEI 325)
SEP	232.2 (5.0)	253.4 (10.5)
OCT (REV)	156.6 (MIN 32.6)	260.5 (2.8)
NOV (PREL.)	224.4 (43.3)	279.0 (7.1)

9. NEW PRIVATE MACHINERY ORDERS WERE DOWN AGAIN IN NOV, THOUGH RATE OF DECLINE SLOWER THAN IN OCT. ORDERS PLACED BY MANUFACTURING SECTOR REGISTERED HEALTHY INCREASE BUT ORDERS PLACED BY NON-MANUFACTURING SECTOR (INCLUDING ELECTRIC POWER INDUSTRY) DECLINED SHARPLY.

NEW PRIVATE MACHINERY ORDERS, EXCLUDING SHIPS, S.A.
(JEI 337)

	BIL YEN	PERCENT CHANGE FROM PRIOR MONTH
SEP	316.9	60.0
OCT	246.6	MIN 22.2
NOV	226.5	MIN 8.2.

10. FOR MOST PART, LABOR MARKETS CONTINUED TO DETERIORATE IN NOV, ALTHOUGH MANUFACTURING OVERTIME FIGURES MAY FORESHADOW FUTURE IMPROVEMENT. NUMBER OF FULLY UNEMPLOYED PERSONS ROSE AGAIN IN NOV, TO 1.12 MIL, AND UNEMPLOYMENT RATE CLIMBED TO 2.1 PERCENT. (NOTE: PRIME MINISTER'S OFFICE, USING DIFFERENT SEASONAL

ADJUSTMENT FACTORS THAN EPA, REPORTED NOV UNEMPLOYMENT RATE
DECLINE TO 1.99 PERCENT). JOB OFFERS TO APPLICANT RATIO CONTINUED
TO DECLINE IN NOV, TO 0.58 FIGURE. (NOTE THAT EPA REVISED OCT
JOB OFFERS TO APPLICANT RATION UPWARD FROM 0.53 PREVIOUSLY
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REPORTED TO 0.61.) BRIGHT SPOT IN NOV LABOR MARKET WAS INCREASE
IN OVERTIME WORKED IN MANUFACTURING. UNIT LABOR COSTS ALSO
DECLINED IN NOV.

JEI NO.	SERIES (UNIT)	SEP	OCT	NOV
378	UNEMPLOYED (THOUSANDS)	1080	1100	1120
379	UNEMPLOYMENT RATE (PERCENT)	2.00	2.05	2.10
385	JOB OFFERS/APPLICANT RATIO	0.65	0.61(R)	0.58
401	MFG OVERTIME (1975 EQUALS 100)	135.0	134.6	136.7
421	UNIT LABOR COST (1970 EQUALS 100)	185.4	187.9(R)	185.7

NOTE: ALL SERIES ARE SEASONALLY ADJUSTED BY EPA.
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Message Attributes

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Disposition Approved on Date:
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